REPORT OF EXAMINATION

INVESTORS LIFE INSURANCE COMPANY of NORTH AMERICA

Seattle, Washington

December 31, 1998

States Participating:

Washington
Delaware
Montana
Oregon

INVESTORS LIFE INSURANCE COMPANY OF NORTH AMERICA

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify that the attached Report of Examination shows the financial condition and affairs of INVESTORS LIFE INSURANCE COMPANY of Seattle, Washington as of December 31, 1998.

____
Patrick H McNaughton
Chief Examiner

__6/28/01_________________
Date

INVESTORS LIFE INSURANCE COMPANY OF NORTH AMERICA

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INVESTORS LIFE INSURANCE COMPANY OF NORTH AMERICA

Seattle, Washington
June 28, 2001

Hon. Kathleen Sebelius
Commissioner, Kansas Insurance Dept.
Chair, NAIC Financial Condition (EX4) Sub
420 S.W. 9th Street
Topeka, KS 66612-1678

Hon. Bob Lohr
Director, Alaska Division of Insurance
NAIC Secretary, Western Zone
3601 C Street, Suite 1324
Anchorage, AK 99503-5948

Hon. Donna Lee Williams
Commissioner, Delaware Department of Insurance
NAIC Secretary, Northeastern Zone
841 Silver Lake Boulevard
Dover, DE 19904

Hon. Mike Kreidler
Commissioner, Washington State
Office of Insurance Commissioner
14th Avenue & Water Streets
PO Box 40255
Olympia, WA 98504-0255

Dear Commissioners:

In accordance with your instructions and in compliance with the statutory requirements of Chapter 48 of the Revised Code of Washington (RCW), an Association examination was made of the corporate affairs and financial records of

INVESTORS LIFE INSURANCE COMPANY OF NORTH AMERICA

of

Seattle, Washington

hereinafter referred to as the “Company” or “ILINA”, at its home office located at 2101 Fourth Avenue, Suite 700 Seattle, Washington 98121-2371 and its administrative office located at 6500 River Place Blvd., Building One, Austin, Texas 78730.

The Report of Examination is respectfully submitted showing the condition of the Company as of December 31, 1998.

SCOPE OF EXAMINATION

As required by RCW 48.03.010, this Association examination covered the five-year period from January 1, 1994 through December 31, 1998. The Company was last examined as of December 31, 1993 by examiners representing Washington, Mississippi and Montana. Examiners from the states of Delaware, Oregon and Washington, and an actuary from the state of Montana, conducted the current examination. The examination was conducted concurrently with the Association examination of Family Life Insurance Company (FLIC), an affiliated insurance company, domiciled in the state of Washington.

The examination followed the statutory requirements contained in the Washington Insurance Code and the guidelines prescribed in the NAIC Financial Condition Examiner’s Handbook. The Company’s operating procedures and financial records were reviewed as considered necessary to ascertain the financial condition of the Company and conformity with related laws. These matters are discussed in various sections of the report. The examination also included identification and disposition of material transactions and events occurring subsequent to December 31, 1998.

INVESTORS LIFE INSURANCE COMPANY OF NORTH AMERICA
INSTRUCTIONS

The examination findings require the following instructions to the Company:

1. Amend the custodial agreement to include the standard as required by the NAIC and in compliance with RCW 48.03.025. (See Page 10, "Other Agreements" and Page 25, "Bonds")

2. Submit to the NAIC Valuation of Securities Office for SUB1 filing the common stocks investments in its subsidiary, ILG Securities, Inc., in compliance with RCW 48.03.025, and Washington Administrative Code 284-07-050(2) WAC. (See Page 25, "Common Stocks")

3. Comply with RCW 48.05.280 and RCW 48.05.250 regarding proper calculation of accrued interest as shown on Exhibit 2, Column 4 - Net Investment Income and properly reconcile applicable general ledger accounts to Exhibit 2 in annual statement. (See Page 21, "Investment Income Due and Accrued")

4. Comply with RCW 48.13.170 (1) and 48.13.160(3) (d) regarding disposal of real estate properties acquired by an insurer through a lawful merger with Standard Life Insurance Company within five years if it has ceased of being necessary for the use of the insurer in the transaction of its business. (See Page 19, "Real Estate, Investment Real Estate")

5. Comply with RCW 48. 13.140 (1) regarding appraisal of real estate acquired by an insurer through a lawful merger with Standard Life Insurance Company, and appraisal of real estate acquired on May 18, 1998 known as the River Place property. (See Page 19, "Real Estate, Investment Real Estate")

6. Comply with RCW 48.13.340 which requires Board of Directors authorization of all investments or the Board of Directors to charge a committee with the duty of making investments. The Executive Committee approved the acquisition of the River Place property and no evidence was found that the Board of Directors charged this committee with this responsibility, nor was any evidence produced that the Board of Directors approved the transaction. (See Page 19, "Real Estate, Investment Real Estate")

7. Comply with RCW 48.13.140 (1) and 48.13.350(2)(c) regarding appraisal of real estate property and also indicate the type or classification of the real estate acquired known as the Bridgepoint Buildings. (See Page 19, "Real Estate, Investment Real Estate")

8. Comply with RCW 48.13.140(2) regarding maintenance of hazard insurance on the real estate property for either home office or investment in real estate. (See Page 20, "Real Estate, Investment Real Estate")

9. Comply with RCW 48.31B.030(1)(a)(iv), RCW 48.05.250 and WAC 284-07-050(2) regarding the recording of and accurate annual statement disclosure of the Company's real estate transactions with affiliates. (See Page 20, "Real Estate, Investment Real Estate")

10. Comply with RCW 48.05.280 and RCW 48.05.250 regarding the proper recording and reporting of the amount by which a policy loan exceeds the cash surrender value of the policy. It should be treated as a non-admitted asset and reported as such. (See Page 26, "Policy Loans")

11. Comply with RCW 48.05.280 and WAC 284-07-050(2) regarding reconciliation of its bank accounts on a monthly basis; establish an escheat account and discontinue to carry a considerable number of old, outstanding checks; and to close inactive checking account. (See Page 20, "Cash on Hand")

12. File a SAR with the NAIC SVO for the Money Market Funds so that they could be included on the Exempt Money Market listing in compliance with RCW 48.05.250, and WAC 284-07-050(2). (See Page 21, "Short Term Investments)

13. Change its method of determining the amount of federal income tax recoverable and also amend the tax sharing agreement to include a settlement provision in compliance with RCW 48.05.280. (See Page 21, “Federal Income Tax Recoverable”)

14. Comply with RCW 48.05.280, regarding outstanding balances in intercompany receivables that remain from mergers with other companies. These balances should be closed or treated as non-admitted assets. This instruction was also included in the prior examination report. (See Page 21, “Receivable from Parent, Subsidiary and Affiliates”)

15. Comply with RCW 48.31B.025(2)(c)(v) regarding receivables from the parent company and other affiliates without a signed agreement between companies for payment of expenses and reimbursement for such payments. (See Page 21, “Receivable from Parent, Subsidiary and Affiliates”)

16. Comply with RCW 48.05.280 regarding maintenance of a comprehensive file of the procedures followed and of data sources used to prepare actuarial assets and liabilities that would facilitate future actuarial examinations, and would also assist the Company in preparing future quarterly and annual statements in compliance with RCW 48.05.250. (See Page 23, “Actuarial Instructions, Comments and Recommendations”)

17. Comply with RCW 48.05.280 regarding the accurate calculation of sub-standard extra premiums and supplemental benefit riders in calculating net due and deferred premiums for traditional life insurance policies. (See Page 24, “Actuarial Instructions, Comments and Recommendations”)

18. Review and modify, if necessary, the reserving methodology and procedures applicable to its universal policies in compliance with RCW 48.74.050(1) and 48.74.060. (See Page 24, “Actuarial Instructions, Comments and Recommendations”)

19. Review the reserve factors used to value reduced paid-up and extended term insurance policies in compliance with RCW 48.74.050 (1). (See Page 24, “Actuarial Instructions, Comments and Recommendations”)

20. Comply with RCW 48.74.030(2)(b) regarding utilization of proper valuation interest rates when determining reserves on immediate annuities. (See Page 24, “Actuarial Instructions, Comments and Recommendations”)

21. Review the appropriateness of the reserve treatment under its bulk ADB reinsurance agreement in compliance with RCW 48.12.160(1). (See Page 24, “Actuarial Instructions, Comments and Recommendations”)

22. Review the appropriateness of its reserving procedures for disabled lives under renewable term and universal life policies in compliance with RCW 48.74.030. (See Page 24, “Actuarial Instructions, Comments and Recommendations”)

23. Review the appropriateness of the reserves for non-deduction of deferred premiums for SLIC policies in compliance with RCW 48.74.030. (See Page 24, “Actuarial Instructions, Comments and Recommendations”)

24. Institute procedures to clarify the in-force records for the Company’s industrial life insurance business that will facilitate the payment of benefits to policyholders as well as the calculation of reserves in compliance with RCW 48.74.030. (See Page 24, “Actuarial Instructions, Comments and Recommendations”)

25. Institute procedures to regularly reconcile the total number of units attributed to policyholders to the total number of units for each investment division within the Company’s Separate Accounts. An accurate recording of units by policyholder would insure that proper benefits are paid to the Company’s policyholders in compliance with RCW 48.05.280. (See Page 26, “Separate Accounts”)

26. Recompute the total reported in the “Policyholders’ Dividends and Coupon Accumulations” account to reflect the correct accumulated interest on policies. Since this account represents amounts due to policyholders, the Company must comply with RCW 48.05.280 and recompute the liability. (See Page 26, “Policyholders’ Dividends and Coupon Accumulations”) The Company should also report to the OIC the following information:

- The specific cause of the error.
- The total dollar amount of the error in the account.

- The method used to correct the problem.
- The correct liability as of December 31, 1998.
- Evidence of proper carry forward of the liability to future Annual Statements.

27. Accurately determine the detail needed to support the general ledger for "Amounts Held for Agents' Account" to comply with RCW 48.05.280. (See Page 24, "Amounts Held for Agents' Account")

28. Accurately document amounts reported in "Aggregate Write-ins for Other than Invested Assets". To comply with RCW 48.12.010, RCW 48.05.280, and WAC 284-07-050(2) to ensure the proper classification of assets, to ensure the accuracy and adequacy of accounts and records for assets and to ensure that financial statements are prepared in accordance with the requirements of statutory accounting practices and procedures. (See Page 24, "Aggregate Write-ins for Other than Invested Assets")

29. Comply with RCW 48.05.250 and WAC 284-07-050(2) for future filing of its Annual Statement regarding proper reporting of asset valuation reserve. (See Page 24, "Asset Valuation Reserve")

30. Comply with RCW 48.12.160(1) in taking reserve credit for reinsurance assumed. (See Page 22, "Universal Life Policies, Reinsurance Assumed")

31. Comply with RCW 48.31B.030(1)(b)(iv) and 48.31B.025(2)(c) regarding separate catastrophe reinsurance agreement. (See Page 11, "Reinsurance")

32. Comply with RCW 48.05.250 regarding proper listing of affiliates or subsidiaries in Schedule Y of the 1998 Annual Statement. (See Page 11, "Reinsurance")

33. Comply with Chapter 284-95 WAC regarding proper transfer of insurance contracts. (See Page 11, "Reinsurance")

HISTORY

The Company was incorporated under the laws of the Commonwealth of Pennsylvania on June 18, 1963 as an investment annuity insurance company under the name of First Investment Annuity Company of America. The Company commenced business on December 27, 1963. In 1978, the Company was sold to Life Insurance Company of North America (LINA), a subsidiary of the CIGNA Corporation (CIGNA), and the name was changed to Investors Life Insurance Company of North America. (ILINA)

On December 28, 1988, Standard Life Insurance Company (SLIC), domesticated under the laws of the state of Mississippi and as a wholly-owned subsidiary of InterContinental Life Corporation (ILCO), purchased from CIGNA and LINA three companies which comprised the individual life insurance products division of CIGNA. The three companies were Investors Life Insurance Company of California (ILICA), ILG Securities Corporation (ILG) and ILINA. As a result of the acquisitions, the corporate structure was reorganized such that ILINA became a wholly owned subsidiary of ILICA. ILICA and ILG became wholly owned subsidiaries of SLIC. SLIC then became a wholly owned subsidiary of ILCO, a life insurance holding company incorporated under the laws of the state of New Jersey.

In 1992, the Company applied to the Commonwealth of Pennsylvania and the state of Washington to redomesticate in Washington. The Insurance Departments for both states granted approval for the redomestication, which was effective December 31, 1992. On December 31, 1992, after the redomestication, the Company merged with its parent company, ILICA. The Insurance Departments of the states of Washington and California approved the merger. ILINA was the surviving entity of the merger, resulting in the Company becoming a wholly owned subsidiary of SLIC. On June 30, 1993, the Company merged with its parent company, SLIC, and was again the surviving entity. The Insurance Departments of the states of Mississippi and Washington approved the merger. Following the merger, the Company became a wholly owned subsidiary of ILCO and parent of InterContinental Life Insurance Company, a life insurance company domiciled in the state of New Jersey.

On February 14, 1995, ILCO, through ILINA purchased from Meridian Mutual Insurance Company the stock of Meridian Life Insurance Company, an Indianapolis-based life insurer, for a cash purchase price of $17.1 million. After the acquisition, Meridian Life changed its name to Investors Life Insurance Company of Indiana (Investors-Indiana).

In December 1997, InterContinental Life Insurance Company (ILIC) transferred its domicile from New Jersey to Indiana. Following completion of the redomestication, ILIC merged with Investors-Indiana, with ILIC as the surviving entity in the merger process. Immediately after the merger, ILIC changed its name to Investors Life Insurance Company of Indiana.

During 1997, ILCO transferred its domicile from New Jersey to Texas. This change was approved by vote of the shareholders at the annual meeting of shareholders held on June 19, 1997.

CAPITALIZATION

As of December 31, 1998, the authorized capital stock of the Company consisted of 150,000 shares of common stock with a par value of $80 per share, of which 30,000 shares were issued and outstanding. The following schedule summarizes the changes in the Company's capital structure since the date of the last examination:

	Authorized Shares	Shares Outstanding	Par Value	Capital Paid-Up	Paid In and Contributed Surplus
12/31/93	150,000	30,000	$80	$2,400,000	$4,800,000
12/31/98	150,000	30,000	$80	$2,400,000	$4,800,000

The par value of the common stock of the Company was increased from $80 to $85 per share in September 1999.

Dividends Paid to Shareholders

There were no dividends paid by the Company during the five-year period covered by this examination to the parent company.

Dividends Paid to Policyholders

Dividends paid by the Company during the five-year period covered by this examination to policyholders were as follows:

Year	Dividends Paid to Policyholders
1994	$229,834
1995	262,326
1996	241,447
1997	(5,949)
1998	191,253

INVESTORS LIFE INSURANCE COMPANY OF NORTH AMERICA
MANAGEMENT

Stockholders

The Company is a wholly owned subsidiary of ILCO. The purchase of Meridian Life Insurance Company in February 1995 and InterContinental Life Insurance Company as discussed in the History section above, along with the subsequent name changes, did not significantly alter the Company's management and control structures or relationships.

Board of Directors

The Bylaws of the Company provide that each director be elected at the annual meeting of the stockholders. Vacancies on the Board may be filled by a majority vote of the remaining members.

The following directors, officers, and committee members are serving the Company as of December 31, 1998:

Directors	Position and Principal Business Affiliation	Residence
Roy Frank Mitte	Chairman, President and Chief Executive Officer, FIC and ILCO	Austin, TX
Jeffrey Harrison Demgen	Executive Vice President of Sales and Marketing	Austin, TX
Theodore Adams Fleron	Senior Vice President, General Counsel and Assistant Secretary	Austin, TX
James Martin Grace	Executive Vice President, Chief Financial Officer, Treasurer and Asst. Secretary	Austin, TX
Dale Edwin Mitte	Senior Vice President and Chief Underwriter	Austin, TX
Eugene Edgar Payne	Executive Vice President, Chief Administrative Operations Officer and Secretary	Austin, TX
Steven Paul Schmitt	Senior Vice President and Assistant Secretary	Austin, TX

Officers

Name	Title
Roy Frank Mitte	Chairman of the Board, President and Chief Executive Officer
James Martin Grace	Executive VicePresident, Chief Financial Officer, Treasurer and Asst. Secretary
Eugene Edgar Payne	Executive Vice President, Chief Adm. Operations Officer and Secretary
Jeffrey Harrison Demgen	Executive Vice President of Sales and Marketing
Dale Edwin Mitte	Senior Vice President and Chief Underwriter
Theodore Adams Fleron	Senior Vice President, General Counsel and Asst. Secretary
Steven Paul Schmitt	Senior Vice President and Assistant Secretary
David Clark Hopkins	Senior Vice President, Controller and Assistant Secretary
Nigel Scott Walker	Senior Vice President, and Assistant Secretary
John Michael Welliver	Senior Vice President

INVESTORS LIFE INSURANCE COMPANY OF NORTH AMERICA

Committees

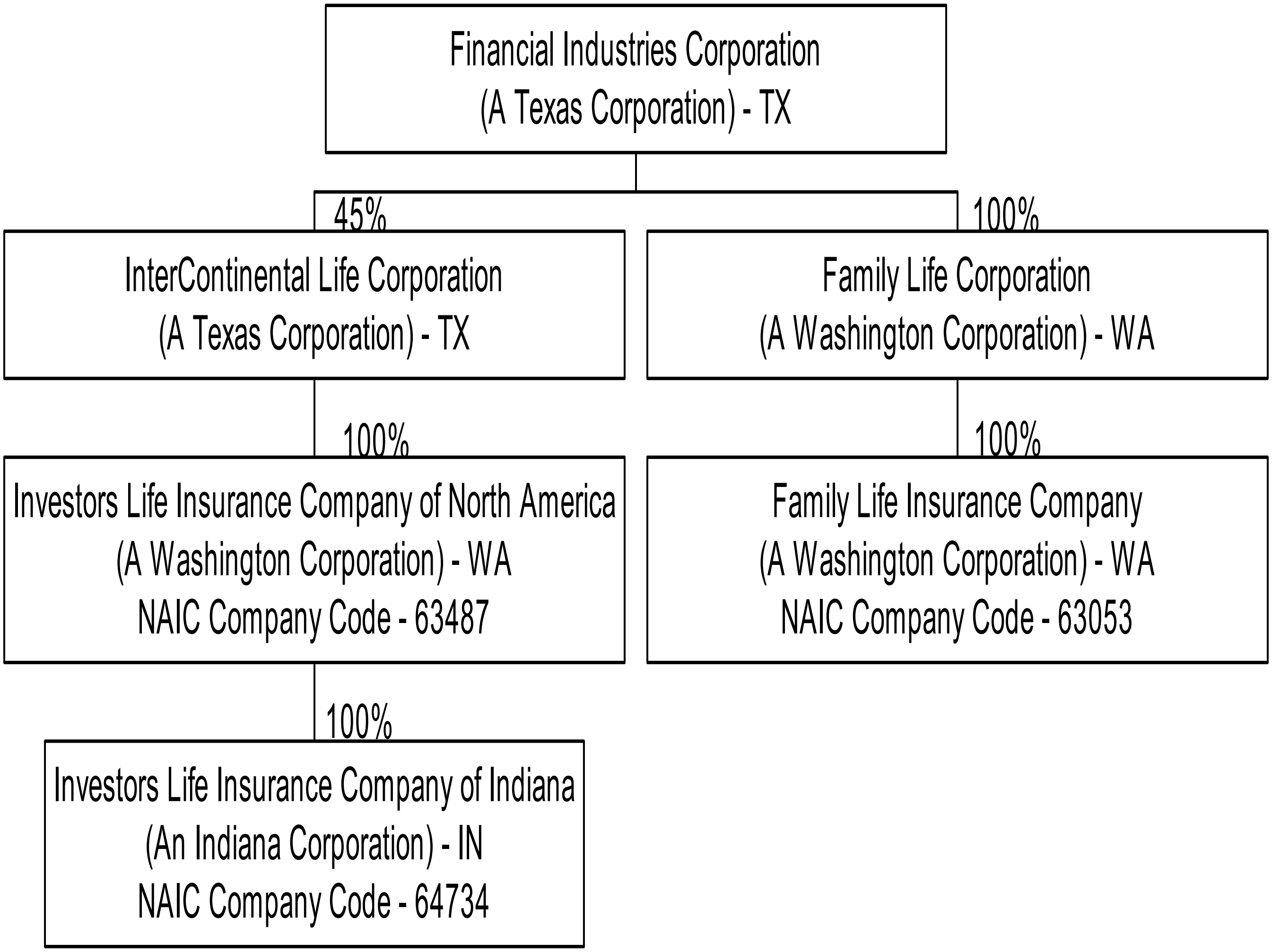
Executive Committee	**Investment/Finance Committee**
Roy Frank Mitte	Roy Frank Mitte
James Martin Grace	James Martin Grace
Eugene Edgar Payne	Eugene Edgar Payne
Jeffrey Harrison Demgen	Jeffrey Harrison Demgen
	David Clark Hopkins*
	Ricardo Alonzo Cruz*
Nominating Committee	**Insurance Committee**
Roy Frank Mitte	James Martin Grace
James Martin Grace	Jeffrey Harrison Demgen
Eugene Edgar Payne	David Clark Hopkins*
Jeffrey Harrison Demgen	Ricardo Alonzo Cruz*
Audit Committee	
James Martin Grace	
Eugene Edgar Payne	
Jeffrey Harrison Demgen	
Steven Paul Schmitt	
David Clark Hopkins*	
Ricardo Alonzo Cruz*	
*Non-voting members	

Conflict of Interest

The Company has an established conflict of interest procedure for its directors, officers and key employees. The review disclosed that all directors and officers filed the conflict of interest statements and no conflicts were noted.

The following organization chart is taken from the filed 1998 annual statement:

INVESTORS LIFE INSURANCE COMPANY OF NORTH AMERICA



AFFILIATED COMPANIES

The Company is a wholly owned subsidiary of InterContinental Life Corporation (ILCO). As a member of an Insurance Holding Company System, registration statements are required to be filed in accordance with RCW 48.31B.025 and WAC 284-18-300. ILCO filed the registration statements for each year under examination on behalf of the Company and its affiliates.

Contracts/Service Agreements

The Company's income tax returns have been consolidated with its wholly-owned subsidiary, Investors Life Insurance Company of Indiana. The method by which the total consolidated federal income tax for each entity is allocated to each of these companies is subject to a written agreement approved by the Company's Board of Directors. Allocation is based on separate return calculations so each company in the consolidated return pays the same tax or receives the same refunds it would have paid or received had it consistently filed separate federal income tax returns. Intercompany tax balances are settled on a quarterly basis.

Minutes

The minutes of the Shareholders, Board of Directors, and Executive Committee of the Board for the period covered under examination were reviewed. With one exception, the Board adequately approved investment transactions on an annual basis. The unanimous written consent of the Board of Directors and the Executive Committee in lieu of special meetings were fully signed and documented by its members. On October 28, 1998, the Executive Committee ratified, in its written consent in lieu of a special meeting, the purchase of the River Place property. However, the minutes showed no formal approval by the Board of Directors that such investment is in compliance with RCW 48.13.340. It is recommended that the Company comply with the referenced section.

INTERNAL SECURITY

Fidelity Bonds

The Company maintains a Fidelity Bond through National Union Fire Insurance Company issued to InterContinental Life Corporation with the Company being a named insured on Rider #1 of this policy. The policy provides a limit of $5,000,000 with a single loss deductible of $25,000. The coverage exceeds the minimum amount of fidelity insurance recommended by the NAIC Financial Examiners Handbook.

Other Insurance

The Company also maintains various insurance policies as provided against property and liability loss. Coverage includes commercial general liability, directors and officers liability and other hazards to which the Company is exposed. The Company appeared to be adequately protected.

Internal Controls

The firm of PriceWaterhouse Coopers, Certified Public Accountants, Dallas, Texas was retained by the Company to audit its statutory financial statements for the years under examination. As part of these audits, reports of internal control structure were issued with no material weaknesses noted.

In addition, the examiners independently tested internal controls and, with the exception of items referenced in the "Accounting Records and Procedures" (See page 12) section of this report, no other material weaknesses were found.

Internal Audit Function

The Internal Audit Department of the parent holding company, FIC Insurance Group, performs audits of the Company and provides recommendations to management on internal controls and operational procedures.

Other Agreements

InterContinental Life Corporation manages the Company's invested assets under an investment service agreement with the Bank of New York. Examination of the agreement indicates that it should be amended to include the standard by the NAIC pertaining to language requiring indemnification of the Company and also in compliance with RCW 48.03.025 for proper safeguards and security of the Company's assets.

OFFICERS AND EMPLOYEES WELFARE AND PENSION PLANS

The Company, as a member of InterContinental Life Corporation, provides its employees and their dependents with medical, dental, vision care, and life and AD&D benefits. The Company's employees are eligible to participate in the parent company's pension plan; a long term disability plan and a profit sharing savings plan. The Company made adequate provisions in the financial statements for its obligations under these plans.

TERRITORY AND PLAN OF OPERATION

The Company is authorized to transact business in 49 states (except New York), the District of Columbia, and the U.S. Virgin Islands as of December 31, 1998.

The Company licenses a non-exclusive agent sales force of approximately 1,325 representatives, supported by fourteen regional sales managers. The primary sales focus of the Company is individual Universal Life insurance and fixed deferred annuity products.

GROWTH OF COMPANY

The growth of the Company for the past five years is reflected in the following exhibit prepared from the filed annual statements and as adjusted by this examination:

(000's Omitted)

Year	Assets	Liabilities	Capital	Surplus	Premiums and Annuity Consideration
1994	1,042,889	998,048	2,400	51,441	52,678
1995	1,080,443	1,018,547	2,400	59,496	47,154
1996	1,060,604	1,004,430	2,400	53,774	47,894
1997	1,086,269	1,012,336	2,400	71,532	46,533
1998*	1,064,283	1,014,143	2,400	50,140	45,302

*As adjusted by this examination.

REINSURANCE

Assumed

The Company has assumed life insurance from three companies, one from an affiliate, Family Life Insurance Company (FLIC), and two non-affiliate reinsurers. The amount of inforce with FLIC totaled $330,284,551 with a reserve of $9,971,922. The amount of reinsurance with the non-affiliated reinsurers totaled $848,148 with a reserve of $11,970 at year-end.

Accident and health insurance has been assumed from two unaffiliated reinsurance companies. On December 31, 1998, unearned premiums totaled $9,215 and the reserve liability other than for unearned premiums totaled $343,822.

Ceded

The Company has ceded its business to several companies authorized to transact business in the state of Washington. The Company's maximum retention for individual life insurance is $500,000, with a minimum cession of $10,000. All reinsurance agreements are with reinsurers that are rated A+ to B++ by a recognized reinsurer rating entity. Subsequent to the prior examination, the Company entered into five reinsurance agreements. Two of these agreements were with affiliates, FLIC and Investors Life Insurance Company of Indiana. No unusual provisions or lack of provisions which are material to the examination were noted. The treaties include an insolvency clause in compliance with RCW 48.12.160(3).

The Company and its affiliate, FLIC have jointly entered into a catastrophe reinsurance agreement with Connecticut General Life Insurance Company through an intermediary, John B. Collins Associates, Inc. The preamble of the reinsurance agreement indicates that ILINA, "shall be deemed the authorized representative of the FIC Insurance Group in Austin, Texas, for purposes of sending and receiving notices." The companies jointly pay a total annual minimum premium of $500 (which it is stated that both would each have to pay the minimum $500 annual premium if they entered into separate agreements on their own behalf). However, the reinsurance agreement does not indicate the accounting process for determining which of the companies owes whatever portion of the premium or any transactions that may occur in connection with the agreement. The reinsurance agreement does indicate that this particular agreement cover certain policies issued by the Company in Florida. This is separate from what ILINA is reinsuring. This transaction is not in compliance with RCW 48.31B.030 (1)(b)(iv). This reinsurance agreement could be construed to be a "cost sharing agreement". Additionally, RCW 48.31B.025(2)(c) requires that the transaction between the two companies be filed with the Washington Office of Insurance Commissioner. The Company is instructed to comply with RCW 48.31B.030 (1)(b)(iv) and 48.31B.025 (2)(c). (See Page 4, Instruction #31)

It was also noted that FIC Insurance Group is not listed in Schedule Y of the 1998 Annual Statement, which is not in compliance with RCW 48.05.250 regarding proper listing of affiliates or subsidiaries. The Company is instructed to comply with RCW 48.05.250 regarding proper listing of affiliates or subsidiaries in Schedule Y of the 1998 Annual Statement. (See Page 4, Instruction #32)

Effective July 1, 1997, the Company ceded on a 100% quota share coinsurance basis all of its accident and health business to United Teacher Associates Insurance Company (UTA) of Austin, Texas. In connection with the UTA coinsurance agreement, UTA entered into an assumption reinsurance agreement with the Company wherein UTA would fully transfer/assume the affected accident and health policies once certain requirements were met. While this is not a problem, per se, the manner in which the two companies went about the notice to the affected policyholders does not comply with Chapter 284-95 WAC – "Transfer of Insurance Contracts". The Company is instructed to comply with Chapter 284-95 WAC regarding proper transfer of insurance contracts. (See Page 4, Instruction #33)

ACCOUNTING RECORDS AND PROCEDURES

Accounting Records

The Company's accounting procedures, internal controls and transaction cycles were reviewed during the planning phase of the examination and a trial balance prepared for the year ended December 31, 1998. The Company currently maintains only its premium accounting function in Seattle, Washington. ILINA maintains all other administrative and accounting functions at its parent's corporate headquarters in Austin, Texas. The Company agreed with the Washington Office of the Insurance Commissioner to keep certain copies of its records in its Seattle, Washington home office. However, during the period of the examination, the examiners found that the maintenance of these records inadequate and significant amounts of additional information had to be forwarded from Austin, Texas.

Some of the Company's accounts and records consist of microfiche copies of Monthly Transaction Summary run from the ABC general ledger system. The Company had account balances that it could not support. Asset and liability balances in the general ledger remained unchanged after a merger with another company. Numerous requests for information from the Austin administrative office, where most records are maintained, took weeks and sometimes months to get a response. The responses received were often incomplete and/or inaccurate and additional requests for the information were required. The response time improved during the examiners' on-site work in the administrative office in Austin, but the underlying causes of incomplete and inadequate records still existed.

During the course of the examination and in the prior examination report, it was noted that the condition of financial records made it impossible for prompt review and verification by the examiners. In certain instances, the Company's record keeping practices did not allow for the accurate reporting of balances in the Company's internal financial records or on the annual statements filed with the OIC. The Company did not exercise due care in its maintenance of books and records in a manner that would provide accurate and verifiable financial statements with adequate supporting documentation. For example, in the annual statement as of December 31, 1998, the detailed records required to support the line time in assets, "Aggregate Write-in for Other Invested Assets", could not be produced. The examiners recommended that the entire amount in this line, $6,192,219, be non-admitted as an examination adjustment.

The Company's external auditors made a recent comment with which the examination team concurs that the Company and its affiliate, Family Life Insurance Company, did not timely, or accurately, perform its reconciliations of its various bank accounts. The prior Examination Report also indicated that the Company used incorrect balances in its bank reconciliations. The Company has not made any serious attempts to properly and timely reconcile its bank accounts to determine the true and correct balances at the end of each month. In addition, the Company was cited and fined several thousand dollars during the last examination for similar conditions.

The numerous recording-keeping problems and lack of proper internal control disclosed by the examination are evidence of extremely poor accounting discipline by the Company in the maintenance of its books and records. It is strongly recommended that the Company comply with RCW 48.05.280 and 48.05.250 to ensure full and accurate accounts and records, to facilitate the examination, and to ensure accurate annual statement reporting.

During the 5-year review period covered under this examination, the information systems utilized by FIC and ILCO were composed of five computer operating systems and thirteen major policy software applications. This contributed substantially to major weaknesses in the maintenance of accurate and effective accounting procedures. The multiplicity of automated operating systems and application software was obtained through numerous mergers and acquisitions of other companies and additional lines of business. Computer programs were incomplete or missing source code and documentation. These complexities and problems resulted in long learning curves for users. It also resulted in a high level of manual operations and an increase in service requests to automate manual operations. Several application systems were unsupported by vendors making system and operations support difficult. As the result of a major three-year conversion and Y2K project completed in late 1999, these systems were consolidated into one operating system and three policy application systems. The control weaknesses inherent in multiple systems and applications should be eliminated or greatly reduced as a result of this major conversion effort.

Actuarial Opinion

The Washington Office of the Insurance Commissioner used a zone actuary from the Montana Department of Insurance to review the life and accident and health reserves. It was determined that the Company is in non-compliance with Titles 48 RCW and 284 WAC. The issues of non-compliance regarding recordkeeping, and financial reporting are outlined in the "Notes to Financial Statements" section of this report.

SUBSEQUENT EVENTS

There are no significant financial events, beyond the activities in the normal course of business experienced by the Company, after December 31, 1998.

COMMENTS ON RECOMMENDATIONS FROM PREVIOUS EXAMINATION

Some of the comments and recommendations made in the last examination were not addressed as evidenced by the numerous Instructions generated by the current examinations and contained in the "Accounting Records and Procedures" and "Notes to Financial Statements" sections of this report. It is again strongly recommended that the Company should comply with RCW 48.05.250 to facilitate the examination.

FINANCIAL STATEMENTS

The following statements present the financial condition of the Company as of December 31, 1998 as determined by this examination:

Balance Sheet
Summary of Operations
Comparative Balance Sheet
Comparative Summary of Operations
Reconciliation of Capital and Surplus

INVESTORS LIFE INSURANCE COMPANY OF NORTH AMERICA

BALANCE SHEET

AS OF DECEMBER 31, 1998

	BALANCE PER COMPANY	Notes	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION	Comments
ASSETS					
Bonds	$ 347,668,104		$ -	$ 347,668,104	(1)
Stocks:					
Common	26,091,130			26,091,130	(2)
Mortgage loans on real estate:					
Residential	10,167,780			10,167,780	(3)
Real estate:					
Properties acquired in satisfaction of debt	96,714			96,714	
Investment real estate	14,376,359	A	(3,142,018)	11,234,341	
Policy loans	42,513,998		-	42,513,998	(4)
Cash on hand and on deposit & short term investment	151,304,805	B	(272,832)	151,031,973	
Reinsurance ceded:					
Amounts recoverable from reinsurers	2,488,947			2,488,947	
Commissions and expense allowances due	18,167	K	(18,167)	-	
Electronic data processing equipment	5,219			5,219	
Federal income tax recoverable	5,995,892	C	(4,285,741)	1,710,151	
Guaranty funds receivable	883,032			883,032	
Life premiums & annuity considerations deferred & uncollected	6,394,401	D	45,688	6,440,089	
Investment Income due and accrued	5,846,275	E	(3,026)	5,843,249	
Receivable from parent, subsidiaries and affiliates	3,090,497	F	(1,545,598)	1,544,899	
Aggregate write-ins for other than invested assets	6,192,219	K	(6,192,219)	-	
Total Assets	**$ 623,133,539**		**(15,413,913)**	**$ 607,719,626**	
From Separate Accounts	456,564,184		-	456,564,184	(5)
Total Assets	**$ 1,079,697,723**		**$ (15,413,913)**	**$ 1,064,283,810**	
LIABILITIES					
Aggregate reserve for life policies & contracts	$ 535,396,381	G	$ 4,052,220	$ 539,448,601	
Aggregate reserve for accident & health policies	42,563	H	$ 171	42,734	
Supplementary contracts w/o life contingencies	607,285			607,285	
Policy and contract claims:					
Life	5,270,140	I	66,241	5,336,381	
Accident and health	1,804			1,804	
Policyholders' dividends and coupon accumulations	1,889,382			1,889,382	(6)
Policyholders' dividends due and unpaid	1,382			1,382	
Provision for policyholders' dividends	200,000			200,000	
Premiums and annuity considerations received in advance	67,333			67,333	
Liability for premium and other deposit funds:					
Policyholder premiums	1,250			1,250	
Policy and contract liabilities not included elsewhere:					
Interest maintenance reserve	4,240,361			4,240,361	
General expenses due or accrued	146,084			146,084	
Taxes, licenses and fees (excluding federal and foreign income	187,285			187,285	
Federal income taxes due and accrued	-	C	869,014	869,014	
Unearned investment income	163,612			163,612	
Amounts withheld or retained by company	516,665			516,665	
Amounts held for agents' account	698,208	J	95,808	794,016	
Remittances and items not allocated	169,030			169,030	
Asset valuation reserve	4,266,449	L	(10,740)	4,255,709	
Aggregate write-ins for liabilities	6,911,406		-	6,911,406	
Total Liabilities	**$ 560,776,620**		**$ 5,072,714**	**$ 565,849,334**	
From Separate Accounts	448,294,378		-	448,294,378	(5)
Total Liabilities	**$ 1,009,070,998**		-	**$ 1,014,143,712**	
CAPITAL AND SURPLUS					
Common capital stock	$ 2,400,000		$ -	$ 2,400,000	
Surplus notes	$ 15,896,224			$ 15,896,224	
Gross paid in and contributed surplus	4,800,000		-	4,800,000	
Aggregate write-ins for special surplus funds	8,269,806			8,269,806	
Unassigned funds (surplus)	39,260,695	ALL	(20,486,627)	18,774,068	
Total Capital and Surplus	**$ 70,626,725**		**$ (20,486,627)**	**$ 50,140,098**	
Total Liabilities, Capital and Surplus	**$ 1,079,697,723**		**$ (15,413,913)**	**$ 1,064,283,810**	

SUMMARY OF OPERATIONS
FOR YEAR ENDED DECEMBER 31, 1998

	BALANCE PER COMPANY	Notes	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION
Premiums and annuity considerations	$ 45,301,790		$ -	$ 45,301,790
Deposit-type funds	347,205			347,205
Considerations for supplementary contracts w/life contingencies	690,291			690,291
Considerations for supplementary contracts w/o life contingencies	189,280			189,280
Net Investment Income	44,859,132			44,859,132
Amortization of interest maintenance reserve	331,422		-	331,422
Commissions and expense allowances on reinsurance	514,743		-	514,743
Income from fees associated with investment management	1,460,806			1,460,806
Aggregate write-ins for miscellaneous income	312,177		-	312,177
Total Income	**$ 94,006,846**		$ -	**$ 94,006,846**
Death benefits	$ 27,926,250			$ 27,926,250
Matured endowments	297,783			297,783
Annuity benefits	41,695,065			41,695,065
Disability benefits	279,024			279,024
Coupons, guaranteed annual pure endowments	(6,796)			(6,796)
Surrender benefits and other fund withdrawals	30,721,691			30,721,691
Interest on policy and contract funds	181,048			181,048
Payments on supplementary contracts w/life contingencies	1,009,933			1,009,933
Payments of dividends accumulations	262,021			262,021
Increase in aggregate reserves for life and A&H policies & contracts	(10,018,154)		-	(10,018,154)
Increase in reserve for dividends accumulations	43,368			43,368
Commissions on premiums and annuity considerations	1,486,632		-	1,486,632
Commissions & expense allowance on reinsurance assumed	2,601,186			2,601,186
General insurance expenses	11,084,609		-	11,084,609
Insurance taxes, licenses and fees	1,729,389			1,729,389
Increase in loading on and cost of collection	(18,366)		-	(18,366)
Net transfers to or (from) separate accounts	(27,310,181)			(27,310,181)
Aggregate write-ins for deductions	(4,044,091)		-	(4,044,091)
Total Benefits and Expenses	**$ 77,920,411**		**-**	**$ 77,920,411**
Net Gain from Operations before dividends to policyholders	**$ 16,086,435**			**$ 16,086,435**
Dividends to policyholders	191,253		-	191,253
Net gain from operations before federal income taxes	**$ 15,895,182**		**$ -**	**$ 15,895,182**
Federal income taxes incurred	3,650,695			3,650,695
Net gain from operations before realized capital gains	**$ 12,244,487**			**$ 12,244,487**
Net realized capital gains	136,795		-	136,795
NET INCOME	**$ 12,381,282**		**-**	**$ 12,381,282**
CAPITAL AND SURPLUS ACCOUNT				
Capital and surplus, December 31, prior year	$ 73,932,360		-	73,932,360
Net income	12,381,282		-	12,381,282
Change in unrealized capital gains or (losses)	(5,530,186)		-	(5,530,186)
Change in non-admitted assets	80,081		(15,413,913)	(15,333,832)
Change in reserve on account of change in valuation basis	(137,246)		(5,083,454)	(5,220,700)
Change in asset valuation reserve	546,657		10,740.00	557,397
Other changes in surplus in separate accounts statement	2,228,475		-	2,228,475
Changes in surplus notes	(11,900,000)		-	(11,900,000)
Aggregate write-ins for gains and losses in surplus	(974,698)		-	(974,698)
Net change in capital and surplus for the year	**(3,305,635)**		**(15,413,913)**	**(18,719,548)**
Capital and surplus, December 31, current year	**$ 70,626,725**		**$ (20,486,627)**	**50,140,098**

INVESTORS LIFE INSURANCE COMPANY OF NORTH AMERICA
Examination as of December 31, 1998
COMPARATIVE BALANCE SHEET

ASSETS	1998*	1997
Bonds	$ 347,668,104	$ 376,911,595
Stocks:		
Common	26,091,130	26,475,860
Mortgage loans on real estate:		
Residential	10,167,780	10,694,528
Real Estate:		
Properties acquired in satisfaction of debt	96,714	101,058
Investment in real estate	11,234,341	6,115,964
Policy loans	42,513,998	44,828,313
Cash on hand and on deposit & short term investments	151,031,973	157,780,003
Reinsurance ceded:		
Amounts recoverable from reinsurers	2,488,947	2,458,391
Commissions and expense allowances due	-	20,059
Electronic data processing equipment	5,219	5,219
Federal income tax recoverable	1,710,151	164,637
Guaranty funds receivable or on deposit	883,032	1,196,862
Life Premiums & annuity considerations deferred & uncollected	6,440,089	6,575,455
Investment Income due and accrued	5,843,249	6,167,587
Receivable from parent, subsidiaries and affiliates	1,544,899	-
Aggregate write-ins for other than invested assets	-	3,838,689
Total Assets	**$ 607,719,626**	**$ 643,334,220**
From Separate Accounts	456,564,184	444,131,148
Total Assets	**$1,064,283,810**	**$1,087,465,368**
LIABILITIES		
Aggregate reserve for life policies and contracts	$ 539,448,601	$ 545,141,333
Aggregate reserve for accident & health policies	42,734	178,520
Supplementary contracts w/o life contingencies	607,285	420,427
Policy and contract claims:		
Life	5,336,381	5,593,269
Accident and health	1,804	15,385
Policyholders' dividends and coupon accumulations	1,889,382	2,031,623
Policyholders' dividends due and unpaid	1,382	3,666
Provision for policyholders dividends apportioned for payment	200,000	220,000
Provision for policyholders' coupons and similar benefits	-	6,551
Premiums and annuity considerations received in advance	67,333	54,351
Liability for premium and other deposit funds:		
Policyholder premiums	1,250	1,250
Policy and contract liabilities not included elsewhere:		
Interest maintenance reserve	4,240,361	4,475,060
Commissions to agents due or accrued	-	3,564
General expenses due or accrued	146,084	215,387
Taxes, licenses and fees, excluding federal income taxes	187,285	139,014
Federal income taxes due and accrued	869,014	-
Unearned investment income	163,612	-
Amounts withheld or retained by company	516,665	319,899
Amounts held for agent's account	794,016	777,865
Remittances and items not allocated	169,030	302,478
Asset valuation reserve	4,255,709	4,813,105
Payable to parent, subsidiaries and affiliates	-	2,655,380
Aggregate Write-ins for Liabilities	6,911,406	6,878,201
Total Liabilities	**$ 565,849,334**	**$ 574,246,328**
From Separate Accounts	448,294,378	438,089,817
Total Liabilities	**$1,014,143,712**	**$1,012,336,145**
CAPITAL AND SURPLUS		
Common capital stock	$ 2,400,000	$ 2,400,000
Surplus notes	$ 15,896,224	$ 27,796,224
Gross paid in and contributed surplus	4,800,000	4,800,000
Aggregate write-ins for special surplus funds	8,269,806	6,041,331
Unassigned funds (surplus)	18,774,068	32,894,804
Total Capital and Surplus	**$ 50,140,098**	**$ 73,932,359**
Total Liabilities, Capital and Surplus	**$1,064,283,810**	**$1,086,268,504**

*** As adjusted by examination.**

Examination as of December 31, 1998
COMPARATIVE SUMMARY OF OPERATIONS

	1998*	1997
Premiums and annuity considerations	$ 45,301,790	$46,532,646
Deposit-type funds	347,205	384,775
Considerations for supplementary contracts w/life contingencies	690,291	633,537
Considerations for supplementary contracts w/o life contingencies	189,280	157,521
Net investment income	44,859,132	45,482,945
Amortization of interest maintenance reserve	331,422	308,950
Separate accounts net gain from operations		819,075
Commissions and expense allowances on reinsurance	514,743	495,655
Income from fees associated with investment management	1,460,806	1,551,235
Aggregate write-ins for miscellaneous income	312,177	1,157,233
Total Income	**$ 94,006,846**	**$97,523,572**
Death benefits	27,926,250	27,498,623
Matured endowments	297,783	368,795
Annuity benefits	41,695,065	47,988,247
Disability benefits	279,024	807,998
Coupons, guaranteed annual pure endowments	(6,796)	1,520
Surrender benefits and other fund withdrawals	30,721,691	30,486,889
Interest on policy and contract funds	181,048	188,761
Payments on supplementary contracts w/life contingencies	1,009,933	1,032,157
Payments of dividends accumulations	262,021	297,911
Increase in aggregate reserves for life and A&H policies	(10,018,154)	(14,783,420)
Increase in reserves for dividends accumulations	43,368	84,567
Commissions on premiums and annuity considerations	1,486,632	927,404
Commissions & expense allowance on reinsurance assumed	2,601,186	2,129,547
General insurance expenses	11,084,609	11,647,749
Insurance taxes, licenses and fees	1,729,389	1,759,923
Increase in loading on and cost of collection	(18,366)	541,756
Net transfers to or (from) separate accounts	(27,310,181)	(29,501,988)
Aggregate write-ins for deductions	(4,044,091)	322,245
Total Benefits and Expenses	**$ 77,920,411**	**$81,798,684**
Net Gain from Operations before dividends to policyholders	**$ 16,086,435**	**$15,724,888**
Dividends to policyholders	191,253	(5,949)
Net gain from operations before federal income taxes	**$ 15,895,182**	**$15,730,837**
Federal income taxes	3,650,695	2,423,398
Net gain from operations before realized capital gains	**$ 12,244,487**	**$13,307,439**
Net realized capital gains less capital gains tax	136,795	9,531,764
NET INCOME	**$ 12,381,282**	**$22,839,203**

CAPITAL AND SURPLUS ACCOUNT

	1998*	1997
Capital and surplus, December 31, previous year	$ 73,932,360	56,173,628
Net income	12,381,282	22,839,203
Change in unrealized capital gains or (losses)	(5,530,186)	(2,045,039)
Change in non-admitted assets	(15,333,832)	963,559
Change in reserve on account of change in valuation basis	(5,220,700)	-
Change in asset valuation reserve	557,397	5,260,643
Other changes in surplus in separate accounts statement	2,228,475	-
Change in surplus notes	(11,900,000)	(10,750,000)
Aggregate write-ins for gains and losses in surplus	(974,698)	1,490,366
Net change in capital and surplus for the year	**$ (23,792,262)**	**$17,758,732**
Capital and surplus, December 31, current year	**$ 50,140,098**	**$73,932,360**

*** As adjusted by examination**

Examination as of December 31, 1998
RECONCILIATION OF CAPITAL AND SURPLUS

	1998 *	1997	1996	1995	1994
Capital and Surplus, December 31, previous year	**$ 73,932,360**	**$ 56,173,628**	**$ 61,896,193**	**$ 53,841,480**	**$ 60,956,913**
Net income	$ 12,381,282	$ 22,839,203	$ 28,398,736	$ 16,126,386	$ 14,129,327
Change in net unrealized gains or (losses)	(5,530,186)	(2,045,039)	610,862	(7,154,190)	(806,772)
Change in non-admitted assets	(15,333,832)	963,559	(688,117)	(897,143)	(1,294,885)
Change in reserve on account of change in valuation basis	(5,220,700)	-	(4,883,814)	-	-
Change in asset valuation reserve	557,397	5,260,643	(258,469)	(221,676)	(50,889)
Change in surplus in separate accounts statement	2,228,475	-	-	1,161,336	(27,364)
Change in surplus notes	(11,900,000)	(10,750,000)	(30,750,000)	-	-
Aggregate write-ins for gains and losses in surplus	(974,698)	1,490,366	1,848,237	(960,000)	(19,064,850)
Net change in capital and surplus	$ (23,792,262)	$ 17,758,732	$ (5,722,565)	$ 8,054,713	$ (7,115,433)
Capital and Surplus, December 31, current year	**$ 50,140,098**	**$ 73,932,360**	**$ 56,173,628**	**$ 61,896,193**	**$ 53,841,480**

*** As adjusted by examination.**

NOTES TO FINANCIAL STATEMENTS

(A) Real Estate: Investment in real estate

As of December 31, 1998, the Company had six parcels of real estate that it acquired through a lawful merger with Standard Life Insurance Company that occurred June 29, 1993. The Company had four parcels of real estate that it acquired through a cash purchase from Standard Life Insurance Company on December 31, 1988. The Company also had one parcel of real property acquired through foreclosure, and one parcel of property that it acquired on its own during 1998.

The examination team has non-admitted the six parcels of real estate acquired through the Company's merger with its then parent company, Standard Life Insurance Company, with Investors Life being the surviving insurer. These non-admissions total $3,142,018, leaving a balance of $11,331,055 of the total book and admitted value of these properties in the Company's 1998 Annual Statement. The Company is not in compliance with RCW 48.13.170(d), and 48.13.160(3)(d), which provides that a domestic insurer shall dispose of all real estate properties acquired by such insurer pursuant to a merger within five years after the date of acquisition by merger. (See Instruction #4, Page 2)

When the Company acquired the six parcels of real estate through the merger with Standard Life Insurance Company, it failed to obtain real estate appraisals as required in RCW 48.13.140 (1). (See Instruction #5, Page 2)

The Company did not obtain an appraisal on the real estate property that it acquired on May 18, 1998, known as the River Place property in non-compliance with RCW 48.13.140 (1). Pursuant to this section, an appraisal must be obtained prior to acquisition of the property. During the examination, evidence of an appraisal was requested several times by the examination team, but was not provided. The Company requested an appraisal on August 18, 2000 and provided the appraisal in part by a letter from an MAI stating his determination of the value of the property on a preliminary basis. By the end of the examination, the full appraisal was received that supported the initial value as indicated by the appraiser. (See Instruction #5, Page 2)

On May 18, 1998, the Company signed a Contract of Sale Agreement to acquire the River Place property. On October 28, 1998, the Executive Committee of the Company's Board of Directors approved the acquisition of the River Place property by unanimous written consent. A review of all of the meeting minutes of the Board of Directors did not reveal that the Board approved this transaction to acquire the River Place property, either prior to its acquisition or thereafter. The minutes also did not reveal that the Board of Directors gave the Executive Committee or any other officer the authority to acquire the River Place property, either prior to its acquisition or thereafter, which is not in compliance with RCW 48.13.340. (See Instruction # 6, Page 2)

The Company was not in compliance with RCW 48.13.140 (1) and RCW 48.13.350(2)(c) requiring that it obtain an appraisal of the property described as "Bridgepoint One through Four". The Company acquired and began to develop the property in 1996 but sold it in 1997. The Company did not obtain an appraisal subsequent to various acquisitions associated with this property. The Board of Directors approved the acquisition of the property without the appraisal. The approval of the acquisition of the property also did not indicate the type or classification of the real estate acquired. (See Instruction #7, Page 2)

In addition the Company's affiliate, Family Life Insurance Company (FLIC), acquired an unimproved parcel of property described as the "Bridgepoint Buildings", as investment property as noted in the Form 10-K as issued by the ultimate parent company, Financial Industries Corporation (FIC). This property was adjacent to the Company's acquisition of "Bridgepoint One through Four". The Company sold these properties in November 1997 when FLIC sold its entire interest in the adjoining property to the same single, but unaffiliated, investor. The Company and its affiliate FLIC acquired this particular parcel of property and began construction of a building thereon as an overall plan of real estate development by the holding company. The holding company used the life insurance companies (Family Life and Investors Life) to finance the project.

During the review of the Company's records that should be maintained for each parcel of real estate property for either home office or investment in real estate, it was noted that the Company did not maintain adequate hazard insurance on some of the respective properties. The only evidence of insurance provided to the examination team was that the parent company, Financial Industries Corporation had a general liability policy. As each parcel of real estate held was not specifically listed as being covered, the Company is not in compliance with RCW 48.13.140(2). (See Instruction #8, Page 2)

It is noted that when the Company sold the Bridgepoint properties in 1997, it paid a $156,000 commission to an affiliate, FIC Realty Service, Inc. The Company also paid a $2,580 commission to FIC Realty Service, Inc., in connection with the sale of the Goodyear store investment property in Halton, Texas in November of 1998. It was noted that this affiliate was not listed in Schedule Y –Part 1 – Organization Chart or in Schedule Y – Part 2 – Summary of Insurer's Transactions with Any Affiliates in the 1998 Annual Statement. This does not appear to be in compliance with RCW 48.31B.030 (1)(a)(iv), RCW 48.05.250, and WAC 284-07-050(2). (See Instruction #9, Page 2)

(B) Cash on hand and Short term investments

Cash on hand – The Company failed and was unable to timely and accurately reconcile its bank accounts. This resulted in the inclusion in the asset for cash, a balance that was not the true, year-end balance of the Company's operational checking account. It also failed to use the true and reconciled balance of this account on its 1998 Annual Statement. The amount of the overstatement between the true and correct balance and the amount that the Company indicated was material and amounted to $9,636,917. With the detail initially provided to the examiners the true, reconciled balance of this account was $(639,380). Subsequently, the Company provided information that it had inappropriately reclassified $9,636,917 of outstanding checks to the liability side of the Company's balance sheet as cash overdrafts. This indicated that the Company's balance for the operational checking account was $8,997,538. The classification by the Company of these outstanding checks as cash overdrafts overstates the Company's total assets. The Washington Insurance Code provides for certain limitations on assets that are computed using the Company's total admitted assets as of a certain date. To overstate these admitted assets could also overstate the Company's investments beyond the limitations provided in the Washington Insurance Code.

In addition, the Company made corrections after the end of the year to two of its cash accounts totaling $272,832. The Company booked a decrease to one of its cash accounts of $54,666 when the correct entry should have been an increase in this cash account by $26,114, or an understated difference of $80,780. The Company also overstated another cash account by $353,612. The Company has made a number of material errors and correcting errors to this particular account over a two-year period that resulted in a reduction of the cash account by $353,612. The overall overstatement amounted to $272,832.

The Company's external auditors also made a recent comment, with which the examination team concurs, that the Company and its affiliate, Family Life Insurance Company, did not timely, or accurately, perform its reconciliations of its various bank accounts. The prior Report of Examination also indicated that the Company used incorrect balances in its bank reconciliations.

The examiners strongly recommend again, that the Company fully and accurately reconcile all cash balances in accordance with RCW 48.05.280, and appropriate accounting methodologies in accordance with WAC 284-07-050(2), and report to the OIC the details of this reconcilement. The Company must also continue to accurately and timely reconcile its accounts on a monthly basis. (See Instruction #11, Page 2)

The Company has continued to carry a considerable number of outstanding checks in its active accounts that were issued prior to 1993 dating back to early 1991. These checks should have been escheated to the various jurisdictions and removed from bank reconciliation process. The Company also failed to include in its asset for cash one inactive checking account. The amount in this checking account was immaterial. This is not in compliance with RCW 48.05.280. (See Instruction #11, Page 2)

Short Term Investments – The review of short-term investments disclosed that the Company invested in Money Market Funds that were not listed in the NAIC SVO Mutual Funds listing which is not in compliance with RCW 48.03.025. (See Instruction #12, Page 2)

(C) Federal Income Tax Recoverable – The Company filed consolidated tax returns for 1998. The Consolidated Income Tax Allocation Agreement does not have a settlement provision. It is recommended that the Company amend the agreement to include a settlement provision and adhere to the agreement. The Company has not settled the inter-company balance that has arisen from the tax allocation agreement. The amount of $4,285,741 has been non-admitted and a liability was established for the difference in the amount of prepayments made by the Company and the federal income tax that the Company would owe on a stand-alone basis. In the future, all such balances should be shown in the receivable from parent, subsidiaries and affiliates account in compliance with RCW 48.05.280. (See Instruction #13, Page 2)

(D) Life Insurance Premiums and Annuity Considerations Deferred and Uncollected – $45,688 – Based upon the actuarial computational adjustments described as follows:

Supplemental Benefits – The Company did not include net due and deferred premiums for sub-standard extra premiums and supplemental benefit riders on traditional life insurance policies. Including these premiums increases the asset by $42,500.

Manual Adjustments – The Company did not include net due and deferred premiums for policies found on manual adjustment worksheets. Including these premiums increases the asset by $3,188.

The net effect of these adjustments is a $45,688 increase to Life Insurance Premiums and Annuity Considerations Deferred and Uncollected.

(E) Investment Income Due and Accrued – The applicable general ledger accounts for this line item could not be reconciled to Exhibit 2 of the 1998 Annual Statement or to any other detail other than in total. In addition, a $3,026 adjustment was made to the total for this line item and should have been made to the applicable general ledger, which is not in compliance with RCW 48.05.250 and 48.05.280. (See Instruction #3, Page 2)

(F) Receivable from Parent, Subsidiary and Affiliates – The prior examination report commented that the review of various balances revealed several discrepancies. There were inter-company balances between the merged companies that did not net zero; these were non-admitted, as the payee and the payor are the same entity. It was recommended that the Company reconcile the outstanding balances and combine the accounts of the merged companies. In addition, the inter-company balances should be settled on a regular basis, preferably monthly but at a minimum quarterly. The Company should also ensure that only related company balances are reported on this line of the Annual Statement.

Reviews of the 1998 ledger accounts that make up the receivable indicate that the Company has not complied with the prior recommendations. The general ledger still consists of outstanding balances from the various companies that were merged to create the current surviving Company. Some accounts have had no activity over the past year. Accounts of this nature with debit balances should be treated non-admitted assets. Also some balances were not settled during the first quarter of 1999. These accounting practices were not in compliance with RCW 48.05.280. (See Instruction #14, Page 3)

It was also noted that the Company has balances payable to Financial Industries Corporation (FIC), InterContinental Life Corporation (ILCO), Family Life Corporation, ILG Sales Corp. and ILG Securities, Inc. There is no signed agreement between these companies for payment of expenses and reimbursement for such payments, which is not in compliance with RCW 48.31B.025(2)(c)(v). The amount of $1,545,598 that was not collected or cleared in the First Quarter of 1999 has been non-admitted in this examination. (See Instruction #15, Page 3)

(G) Aggregate Reserve for Life Policies and Contracts - $4,052,220 – Based upon the actuarial computational adjustments described as follows:

Reduced Paid-Up and Extended Term Insurance – The Company did not use appropriate factors to determine the reserves for a number of reduced paid-up and extended term insurance policies. Using correct factors increases the aggregate reserve by $825,971.

Single Premium Adjustable Whole Life (SPAWL) Policies – For its SPAWL policies, the Company reported the policy cash value as of the 1998 policy anniversary, rather than as of year end, as the December 31, 1998 reserve. Using appropriate policy cash values increases the reserve by $50,821.

Universal Life Policies – The examination consulting actuary noted the following two areas where the Company is required to increase reserves on its universal life policies as follow:

> **Minimum Valuation Standards** – Under RCW 48.74.050(1) and 48.74.060, the most conservative of the mortality and interest assumptions defined by the policy guarantees for the purpose of defining benefits, or for the purpose of valuation under the minimum standard set forth in RCW 48.74.030, should be used in calculating reserves.
>
> The Company utilized the valuation interest rates specified in RCW 48.74.030(3), rather than the more conservative interest rates defined by the policy guarantees, in determining its universal life reserves. Based on a Company prepared re-calculation of the universal life reserves for Investors Life Insurance Company of North America, the examination actuary estimated a reserve increase of $1,543,769 as of December 31, 1998 for Universal Life policies. The examination actuary further estimated a $263,323 reserve increase as of December 31, 1998 for the 110/210 Universal Life policies.
>
> **Accrued Interest to December 31, 1998** – Year-end reserves for the 110/210 Universal Life policies do not include interest that had accrued to December 31, 1998. The examination actuary estimated an additional reserves of $625,639 for the Investors Life Universal Life policies, and additional reserves of $3,971 for the 110/210 Universal Life policies.

Universal Life Policies – Reinsurance Assumed – The Company assumes from Family Life Insurance Company universal life policies written since 1994. The examination actuary's re-calculation of the reserves on the ceded policies to reflect minimum valuation standards, cost of insurance deductions, and accrued interest to December 31, 1998, combined with a worksheet correction, increases the reinsurance ceded reserve credit by $375,861. (See Instruction #30, Page 4)

On-Benefit Annuity Reserves – Incorrect valuation rates were used to determine reserves for a number of the Company's on-benefit annuities. Using proper interest rates increases reported reserves by $21,143.

FIAC Annuities – The FIAC annuities are single-premium annuities that provide benefits for twelve months. The Company's worksheet overstated gross FIAC reserves by $1,704,199. The worksheet also overstated reinsurance ceded reserves by $1,533,779.

ADB Reserves on Universal Life Policies – The Company used projections from its calculation of reserves for accidental death benefit (ADB) riders on traditional life insurance policies to determine reserves for ADB riders on universal life policies. Based on the examination actuary's review of the policy forms and of the Company's reserve calculations for its universal life policies, the examination actuary concluded that reserves for universal life ADB riders are already contained in the cost of insurance deduction reserve provision. The Company overstated reserves for universal life ADB riders by $336,347.

Bulk ADB Reinsurance Ceded Reserves – As of December 31, 1998, the Company had in-force a bulk accidental death benefit (ADB) reinsurance agreement with CIGNA. Under the terms of this agreement, either party giving 90 days notice can cancel the reinsurance coverage for new and existing business. For reserving purposes, the treaty is considered then to be a short-term insurance contract. Since the agreement is a short-term contract, and since a policy year under the agreement is defined as a calendar year, the December 31, 1998 reinsurance ceded reserve credit of $446,205 is disallowed.

Disabled Life Reserves under Universal Life Policies – The disability rider under the Company's universal life policies require a policy's cost of insurance deductions in the event of an insured's total disability. For reserving purposes, the disability benefit under these policies is then an increasing benefit. The Company used a level target premium to determine the reserves for these policies. The examination actuary estimates that if an increasing benefit is used in the reserve calculations, these disabled life reserves would be increased by $260,000.

Non-Deduction Reserve – The Company's calculation of the reserve for non-deduction of deferred premiums on Standard Life Insurance Company (SLIC) policies understates the reported reserve by $65,000.

Worksheet Adjustments – During the course of the examination, the examination actuary found miscellaneous worksheet corrections that have the following impacts on the aggregate life insurance reserve:

- The Company overstated ordinary life insurance reserves by $13,216.
- The Company overstated group life insurance reserves by $242.
- The Company understated annuity reserves by $88,470.
- The Company understated deficiency reserves on SLIC policies by $2,272.

Industrial Life Insurance – The Company has a small block of industrial life insurance policies. The Company was unable to produce an accurate listing of the policyholders for this closed block of business. Since the Company is able to demonstrate that the reported reserve make an adequate provision for the expected benefits under these policies, there was no adjustment made in the reported reserves. However, an accurate listing of policyholders would facilitate the proper payment of death, maturity, and non-forfeiture benefits under these policies.

The net effect of these adjustments is a reserve increase of $4,052,220 to the Aggregate Reserve for Life Policies and Contracts.

(H) Aggregate Reserve for Accident and Health Policies - $171 – Because of a worksheet error, the Unearned Premium Reserve for the credit insurance line should be increased by $171.

(I) Life Policy and Contract Claims - $66,241 – The reported liability is comprised of resisted claims, due and unpaid pending claims, and an estimate of claims incurred but not yet reported to the Company as of December 31, 1998.

The Company's paid claims experience through December 31, 1999, together with an estimate of remaining payments on claims incurred prior to December 31, 1998, indicates that the reported liability is understated by $66,241.

Actuarial Instructions, Recommendations, and Comments – The following instructions, comments and recommendations will result in a more accurate statement of the actuarial assets, reserves, and liabilities in future financial statements:

1. The Company should maintain a comprehensive file of the procedures followed and of the data sources used to prepare the actuarial assets and liabilities. This information would facilitate future actuarial examinations, and would also assist the Company in preparing future quarterly and annual statements in compliance with RCW 48.05.250. (See Instruction #16, Page 3)

2. The Company should reflect sub-standard extra premiums and supplemental benefit riders in calculating net due and deferred premiums for traditional life insurance policies in compliance with RCW 48.05.280. (See Instruction #17, Page 3)

3. The Company should review, and modify where necessary, the current reserving methodology and procedures applicable to its universal life insurance policies. The reserving methodology should comply with RCW 48.74.050 (1), and RCW 48.74.060, as well as reflect the provisions of the Company's policy forms. Areas of emphasis include using required valuation standards for interest rates and mortality tables, properly treating the monthly cost of insurance deductions, and accruing interest to the statement date. (See Instruction #18, Page 3)

4. The Company should review the reserve factors used to value reduced paid-up and extended term insurance policies in compliance with RCW 48.74.050 (1). (See Instruction #19, Page 3)

5. The Company should utilize proper valuation interest rates when determining reserves on immediate annuities in compliance with RCW 48.74.030(2)(b). (See Instruction #20, Page 3)

6. The Company should review the appropriateness of the reserve treatment under its bulk ADB reinsurance agreement, which is not in compliance with RCW 48.12.160(1). (See Instruction #21, Page 3)

7. The Company should review the appropriateness of its reserving procedures for disabled lives under renewable term and universal policies in compliance with RCW 48.74.030. (See Instruction #22, Page 3)

8. The Company should review the appropriateness of the reserves for the non-deduction of deferred premiums for SLIC policies in compliance with RCW 48.74.030. (See Instruction #23, Page 3)

9. The Company should institute procedures to clarify the in-force records for the Company's industrial life insurance business. Accurate in-force records would facilitate the payment of benefits to policyholders, as well as the calculation of reserves in compliance with RCW 48.74.030. (See Instruction #24, Page 3)

(J) Amounts Held for Agents' Account – The Company could not provide detail to support the general ledger. Not only is the total of the detail different than the amount in the Annual Statement but no part of the detail could be reconciled to the various general ledger accounts. The detail could not be reconciled to the general ledger but the general ledger was reconciled to the trial balance and the Annual Statement, which is not in compliance with RCW 48.05.280. The difference of $95,808 should be adjusted because the ledger amounts do not agree to the detail and the examiners were unable to determine which ledger accounts were out of balance. (See Instruction #27, Page 4)

(K) Commissions and expense allowances due/Aggregate write-ins for other than invested assets - $6,210,387 - During the course of the examination, numerous requests were made for documentation from the Company to verify and determine the existence of certain assets in this account. The examiners were unable to determine the existence of these assets. The Company could not document the receipt of amounts due in the case of reinsurance items, nor could it provide adequate documentation of ownership of the assets listed as "Other Assets". These various receivables and other assets cannot be documented. Therefore, they do not meet the definition of an asset pursuant to RCW 48.12.010, do not comply with RCW 48.05.280 which requires accuracy and adequacy of accounts and records for assets, and do not comply with RCW 48.05.250 and WAC 284-07-050(2) which requires compliance with statutory accounting principles. (See Instruction #28, Page 4)

(L) Asset Valuation Reserve – The review of this account disclosed that the Company did not report the correct amount for unrealized capital gains/losses for common stocks in its annual statements for the years, 1998, 1997, and 1996, which is not in compliance with RCW 48. 05.250 and WAC 284-07-050(2). Although the difference of $10,740 in the AVR at December 31, 1998 was not material to the examination, when taken into consideration with the other errors disclosed, it should be posted as an adjustment., and the Company should ensure accuracy in reporting this line in future annual statement filings. (See Instruction #29, Page 4)

INVESTORS LIFE INSURANCE COMPANY OF NORTH AMERICA

COMMENTS ON FINANCIAL STATEMENTS

(1) Bonds **$347,668,104**

The Company's investment in bonds represents 32% of its total admitted assets as of December 31, 1998. The bond portfolio consisted of the following:

Classification	Statement Value	Par Value	Market Value
U.S. Government	$ 46,163,621	$ 46,365,382	$ 47,738,319
States, Territories and Possessions	3,922,059	4,000,000	4,300,000
Special Revenue	174,996,056	177,139,519	174,997,608
Public Utilities	44,174,927	44,255,000	45,968,369
Industrial and Miscellaneous	30,766,664	30,640,878	31,667,469
Parent, Subsidiaries and Affiliates	47,644,777	47,644,777	47,644,777
Total	$ 347,668,104	$ 350,045,556	$ 352,316,542

Bonds, not backed by other loans, are valued at lower of amortized cost or investment value based on the NAIC Valuation of Securities. Discount or premium on bonds is amortized using the effective interest method. For loan-backed bonds, anticipated prepayments at the date of purchase are considered when determining the amortization of discount or premium.

The review of bonds indicated that the Company's Custodial Agreement did not contain the language required per the NAIC Financial Examiners' Handbook. This requirement states: "That the bank or trust company as custodian is obligated to indemnify the insurance company for any loss of securities of the insurance company in the bank or trust company's custody occasioned by the negligence or dishonesty of the bank or trust company's officers or employees, or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage or destruction. That in the event of a loss of the securities for which the bank or trust company is obligated to indemnify the insurance company, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced." (See Instruction #1, Page 2) During the examination, the above agreement was amended to include the standard required by the NAIC in compliance with RCW 48.03.025.

(2) Common Stocks

The Company did not file any information with the NAIC Securities Valuation Office (SVO) for its subsidiary, ILG Securities, Inc., under Part Eight of the SVO Manual, which is not in compliance with RCW 48.030.025 and WAC 284-07-050(2). (See Instruction #2, Page 2)

(3) Mortgage Loans on Real Estate - Residential

The Company could not support the accrued interest amount shown on Exhibit 2 – Net Investment Income, Column 4 in the 1998 Annual Statement, which is not in compliance with RCW 48.05.280 and 48.05.250. However, the difference was immaterial to the examination and no instruction or adjustment was recommended.

The Company showed two loans on Schedule B in the 1998 Annual Statement that had been in default since December 1994. The Company had not foreclosed on these properties because of other legal considerations. Had the Company not written off these loans in 1999, an examination instruction and adjustment would have been recommended.

(4) Policy Loans

The review of the policy loans inventory disclosed that many loans were in excess of the cash value of the policies. This excess was deducted in total from the balance in the general ledger, and the net total was reported in the annual statement. The amount by which a policy loan exceeds the cash surrender value of the policy should be treated as a non-admitted asset and reported as such in compliance with RCW 48.05.280, and RCW 48.05.250. (See Instruction #10, Page 2)

(5) Separate Accounts

Separate Accounts assets are primarily held for the benefit of the participating policyholders. Therefore, the Company determines reported policyholder liabilities for the Separate Accounts by making them equal to total Separate Accounts assets less adjustments. The examination actuary's review of the unit values that the Company reported for each investment division, and the listings of deferred and on-benefit annuitants, disclosed that the reporting of the unit values was inconsistent. In addition, the total of the units attributed to each annuitant, as reported on policy listings, did not agree with the total number of units reported for each investment division. However, the examination actuary did not recommend an adjustment to "Policyholder Liabilities", since total Policyholder Liabilities did equal total Assets, reduced by the applicable adjustments. The examination actuary did suggest that the recorded liabilities for individual policyholders might be incorrect.

The Company should institute procedures to regularly reconcile the total number of units attributed to policyholders to the total number of units for each investment division within the Company's Separate Accounts. An accurate recording of units by policyholder would insure that proper benefits are paid to the Company's policyholders in compliance with RCW 48.05.280. (See Instruction #25, Page 3)

(6) Policyholders' Dividends and Coupon Accumulations

The review of this account indicated that the Company had not accumulated the interest on the policies correctly. During the year 1998, the Company converted to a different system to account for the liability, however, the sample selected in the examination indicated that during the conversion process the Company did not use the appropriate interest rate which is not in compliance with RCW 48.05.280. Although recomputing the sample resulted in an immaterial understatement of the liability of $63,294, the examiners did not determine the total mis-statement for this account. Since this account represents amounts due to policyholders, the Company must comply with RCW 48.05.280 and recompute the liability. The Company should also report to the OIC the following information:

- The specific cause of the error.
- The total dollar amount of the error in the account.
- The method used to correct the problem.
- The correct liability as of December 31, 1998.
- Evidence of proper carry forward of the liability to future Annual Statements.
- Evidence of accurate reporting of the liability in the Annual Statements that have been filed with the OIC.

(See Instruction #26, Page 3)

INVESTORS LIFE INSURANCE COMPANY OF NORTH AMERICA

ACKNOWLEDGMENT

In addition to the undersigned, John Jacobson, AFE from Washington, Larry E. Cross, CFE, CIE, from Delaware, Timothy Hurley, CFE from Oregon, and Thomas L. Burger, FSA, MAAA, zone participant from Montana participated in the examination and preparation of this report.

TIMOTEO L. NAVAJA, CFE, CIE	RICHARD RANDOUR, CFE, CPA
Examiner-in-Charge	Representing Northeastern Zone
State of Washington	State of Delaware

INVESTORS LIFE INSURANCE COMPANY OF NORTH AMERICA
AFFIDAVIT

STATE OF WASHINGTON)
) SS
COUNTY OF THURSTON)

I, TIMOTEO L. NAVAJA, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

____
TIMOTEO L. NAVAJA, CFE, CIE

Subscribed and sworn to before me on this ______ day of __________________, 2001.

____
Notary Public in and for the State
of Washington, residing at Seattle.
My commission expires